Introduction

The following answers are based on questions raised during the LPSA presentation on 12 November. They <u>are preliminary and formulated to the best of our knowledge from the perspective of a representative association</u>. Errors or inaccuracies cannot be fully excluded, as our insights are limited to a general understanding of the structures and operational principles of municipal enterprises in Austria.

1. Regulatory Framework and Affordability Mechanisms

In Austria, the regulation of tariffs and service provision in the field of public utilities is embedded in a multi-level legal and institutional framework. Federal and provincial legislation define the respective competences, the scope of services of general interest, and the procedural obligations of municipalities, which remain the primary providers of essential local services. The practical implementation of tariff regulation differs by sector. In network-bound industries such as electricity and gas, independent regulatory authorities—most prominently E-Control—oversee cost-based tariff approval according to transparent, published methodologies.

In non-regulated sectors, including local water supply, waste management, or public transport, pricing follows statutory cost-recovery principles combined with political discretion at the municipal level. Affordability is not a uniform regulatory category but results from a combination of public ownership, reinvestment obligations, and locally defined social policies such as tariff differentiation or reduced rates for low-income households. Across all sectors, the framework relies on three consistent parameters: legal mandates that establish service obligations, procedural transparency in tariff-setting, and the requirement of financial accountability through public reporting and audit mechanisms.

2. Cross-Subsidisation and Effects of Privatisation

In municipal multi-utility structures, cross-subsidisation functions as an internal financial adjustment mechanism: revenues generated in commercially profitable business areas—such as energy retail, parking management, or ancillary services—are used to stabilise activities that structurally operate below full cost recovery, for example segments of public transport, waste services or municipal swimming facilities. This mechanism relies on integrated ownership and consolidated financial planning across service units.

Privatisation alters this structure fundamentally. Once individual business areas are separated or transferred to private operators, the internal compensation flows cease to exist. Private providers typically restrict their activities to commercially sustainable segments and have no obligation to finance non-profitable services unless such obligations are contractually imposed and compensated. The financial responsibility for loss-making services therefore shifts back to the municipal budget or requires dedicated public-service contracts with explicit funding provisions.

The consequences are context-dependent but generally involve higher fiscal pressure on municipalities and a more formalised negotiation of service standards and compensation. Whether price levels for users increase depends on the regulatory architecture, the extent of contractual obligations, and the municipality's willingness and ability to maintain service provision through budgetary transfers.

3. Long-Term Planning and Democratic Accountability

Municipal enterprises operate within a governance framework that allows long-term investment and planning while maintaining democratic oversight. Their legal separation from the municipal administration enables multi-year budgeting, asset management and infrastructure planning beyond electoral cycles, which is essential for capital-intensive services such as energy, water, or transport. At the same time, strategic orientation remains anchored in municipal policy objectives. The balance between professional autonomy and political accountability is achieved through ownership policies, supervisory boards, and mandatory reporting structures. Municipal councils define overarching goals—such as sustainability targets, service quality, or affordability parameters—while the enterprises translate these into operational programmes and investment plans. Regular ownership reviews and performance reports ensure that political priorities can be revised and integrated into corporate strategy without undermining managerial continuity. This institutional arrangement establishes a form of dual legitimacy: democratic control through the municipal owner and professional legitimacy through stable, expertise-based management. Its effectiveness depends on the clarity of ownership instructions, the competence of supervisory boards, and the consistency with which municipal objectives are operationalised in enterprise planning.

4. Municipal Oversight and Performance Monitoring

In Austria, municipalities discharge their responsibility for essential service provision through a combination of ownership governance and formalised monitoring procedures. The specific configuration varies by sector and municipal practice, but the underlying logic is consistent: service obligations are defined ex ante, and performance is assessed ex post against measurable criteria. Ownership policies, public-service contracts, or concession agreements set out the expected scope of services, service levels, and investment commitments.

Performance is monitored through a structured set of instruments. These typically include defined indicators—such as service quality and reliability, geographical coverage, response and repair times, investment and maintenance ratios, complaint-handling processes, and, where relevant, affordability metrics. Municipal administrations and supervisory bodies review these indicators through periodic reports, financial statements, and audit findings, allowing deviations from agreed targets to be identified and addressed. Corrective action follows established governance routines, ranging from adjustments in operational planning to revisions of service contracts or ownership strategies. This framework ensures that municipal enterprises operate with managerial autonomy while remaining accountable to publicly defined service requirements.

5. Investment Responsibilities of Municipal Enterprises

In Austria, municipal enterprises generally hold a dual mandate that covers both the operation of essential local services and the long-term development of the underlying infrastructure. Their remit extends beyond routine maintenance and service delivery to include planning, financing and implementing investment programmes in areas such as electricity and district heating networks, water supply, wastewater management and public transport. These responsibilities reflect the historical evolution of municipal utilities as integrated providers of services of general interest rather than as purely operational entities.

Investment decisions are embedded in the governance relationship between the municipality as owner and the enterprise as operator. Enterprises prepare multi-year investment plans that are reviewed, approved or adjusted through ownership policies, supervisory board oversight, and sector-specific regulation where applicable. Financing relies predominantly on retained earnings, depreciation-based reinvestment and operating surpluses. For capital-intensive projects—particularly in network sectors—municipal guarantees or direct capital contributions may be required to secure favourable borrowing conditions.

The extent of investment autonomy varies across sectors and legal forms. Fully municipal undertakings typically carry broader investment responsibilities, while enterprises operating under concession or mixed-ownership arrangements may have more narrowly defined investment obligations. Across all models, infrastructure development remains a core function, closely linked to public-service objectives and long-term asset stewardship.

6. Financial Structure and Performance of Vienna Water Utility

A substantive assessment of the financial position and recent performance of the Vienna water utility requires access to its audited financial statements and accompanying management reports. Key indicators typically used to evaluate the financial robustness of water utilities include leverage ratios (such as net debt to EBITDA), the equity ratio, liquidity measures, and the relationship between annual investments and depreciation. These metrics allow conclusions on the utility's capacity to finance infrastructure renewal, its sensitivity to cost increases, and the sustainability of its capital structure.

Trend analysis presupposes a multi-year dataset. A five-year time series of the utility's operating income, operating result, capital expenditures, debt levels and asset base would provide the basis for identifying developments in investment intensity, changes in indebtedness, and shifts in financial resilience. Benchmarking against utilities of comparable size and organisational form would further contextualise the results.

In the absence of such figures, no empirically grounded interpretation can be offered. Any statement on financial stress, investment gaps or debt dynamics would be speculative without the underlying data. A descriptive assessment is therefore not possible based on the material currently available.

7. Fiscal Transfers and Financial Relations with Higher Levels of Government

In Austria, there is no systematic or dedicated transfer mechanism through which federal or provincial governments directly finance municipal enterprises. The primary recipients of intergovernmental transfers are the municipalities themselves, not their utilities. These transfers are allocated through the Finanzausgleich (intergovernmental revenue-sharing system), which constitutes a substantial share of municipal revenues and provides the fiscal base from which municipalities fund both administrative functions and local public services.

Municipal enterprises may indirectly benefit from these resources when municipalities use their general transfers to support specific projects. This support typically takes the form of capital injections, municipal guarantees to facilitate favourable borrowing conditions, or co-financing arrangements for large infrastructure investments. Such measures are discretionary and tied to individual investment needs rather than to a recurring transfer scheme.

As a result, the financial relationship between higher levels of government and municipal enterprises is mediated through the municipal budget. Municipalities retain full responsibility for deciding whether and how these resources are channelled into their utilities. Beyond this framework, Austrian law does not establish a separate, regularised transfer regime targeted at municipal enterprises.